E/1990/27

COMMITTEE FOR DEVELOPMENT PLANNING

REPORT ON THE TWENTY-SIXTH SESSION

(New York, 30 April–4 May 1990)

ECONOMIC AND SOCIAL COUNCIL

OFFICIAL RECORDS, 1990

SUPPLEMENT No. 7

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I. MAIN FINDINGS AND RECOMMENDATIONS

A. The medium-term outlook: a policy challenge

1. The prospects for development and alleviation of poverty in the short and medium term remain bleak for most developing countries even though per capita GDP growth is expected to continue at a modest pace in the developed market economies. Many South and East Asian countries are also expected to continue to do well. But in most other developing countries, growth of per capita output is expected to be only marginally positive or even negative. In sub-Saharan Africa, in particular, per capita income may continue on its downward course.

2. The reasons for the disparities in expected growth rates are discussed in the present report. The Committee emphasized that the bleak picture emerging from the projections is primarily the result of the assumption of unchanged policies. At the international level, co-ordinated policy measures could reduce the level of interest rates and accelerate a resolution of the international debt problem, and a successful conclusion to the Uruguay Round of GATT negotiations could lead to a more open trading system.

3. There is also considerable scope, especially in middle-income developing countries, for effective economic policies which would encourage entrepreneurship, increase domestic investment, and expand exports. The dismal prospects for Africa in the medium term present a challenge not only to national Governments in Africa but also to the developed market economies which need to improve both the volume and quality of their aid.

B. Emerging trading blocs and the multilateral trading system

1. Analytical findings

4. The Committee affirmed the validity of the proposition that exports contribute greatly to economic growth. By exploiting comparative advantage, they improve resource allocation and utilization and expose domestic economies to international standards of productivity.

5. The dominant factor in the growth of world trade during the past two decades has been the growth in exports of manufactures. Developing countries' exports of manufactures have grown faster than world exports of manufactures and now account for more than half of developing country exports. However, these exports have been concentrated in only about a dozen developing countries.

6. Export pessimism has been given a new lease on life by fears that the new regional trading arrangements will lead to greater protectionism. The formation of the Canada/United States and Australia/New Zealand blocs and of the Israel/United States bloc have added to discrimination within the global trading system. Market access to the countries of the European Community (EC) and to North America and Japan are essential if developing countries are to be enabled to diversify by destination as well as by product and to move from inter-industry to intra-industry trade.

7. Export pessimism is not warranted, however, by an analysis of past trends in market penetration. The two most important trends have been the rapid growth in overall consumption of manufactures in developed market economies and the equally impressive rise in the share of imports in consumption. There is great scope for further growth of exports of manufactures from both developing countries and the countries of Eastern Europe and the Union of Soviet Socialist Republics.

8. However, developing countries should recognize that export growth is bound to be more limited and protectionist pressures greater in product lines characterized by low growth of consumption, particularly where import penetration ratios are already high, such as textiles, clothing, and footwear.

9. Markets are also likely to become more competitive as the centrally planned economies start competing in world markets on a large scale and as developing countries participate more in international trade.

10. Developing countries have sought to form regional trading arrangements in order to mitigate the costs of import substitution régimes based on small national markets. They have sought to benefit from economies of scale, economies of specialization, and greater competition, which regional markets might provide. Growth of intra-regional trade was rapid in Latin America in the 1960s and 1970s but has been slow in all developing regions except East Asia in the 1980s. Much of the intra-regional trade of developing countries is based on comparative advantage arising from differences in resource endowments in contrast to the intra-regional trade of developed market economies where intra-industry trade based on specialization and economies of scale dominates.

11. By and large, efforts by developing countries to industrialize in regional blocs have been unsuccessful. Some of the blocs were simply too small to exploit economies of scale. Countries at different levels of development or with different political philosophies could not agree on the co-operation necessary for regional bloc management. Rules of origin and other administrative problems have plagued the blocs so that, to date, many of them have not become effective.

12. Private direct foreign investment is complementary to trade even when undertaken under régimes of import substitution. However, foreign investment in protected industries raises control issues and its costs and benefits are difficult to evaluate.

2. Conclusions for policy

13. The maintenance of an open global trading framework is of the utmost importance to all nations, but particularly to developing countries, especially to the smaller and less developed among them, and to centrally planned economies seeking to enter the world market system. All countries have an interest in ensuring that regional trade arrangements are part of the global trend towards openness and trade liberalization, since global welfare will be increased more through non-discriminatory than discriminatory reductions in protectionism.

14. The growth of non-tariff barriers to trade, unilateral decisions on anti-dumping, and the growth of bilateral trade negotiations by some developed countries threaten the continuation of an open, multilateral trading system. Discrimination against trade from the developing countries, as represented by the

multifibre agreement and the Common Agricultural Policy of the European Community, is counter to the spirit of multilateralism and should be eliminated.

15. Further multilateralization is essential and, because of the changes in their relative economic weights in the world economy, many more developed market, developing and formerly centrally planned economies have major responsibilities in this regard than in the past. All countries should intensify their efforts to achieve a successful conclusion to the Uruguay Round.

16. Proposals for strengthening regional trading arrangements among developing countries are based on the view that inexperienced producers can learn to compete, become more efficient through learning-by-doing, and benefit from economies of scale and the sharing of experience within a trading bloc as a stepping stone to multilateralism. Since these expectations have not often materialized in the past, a careful analysis of actual and potential costs and benefits to those within a bloc and those not included should be undertaken by countries considering joining such arrangements.

17. Regarding private direct foreign investment, the social costs and benefits that accrue to the host countries depend on its policies. If the host country environment is open and oriented towards world market prices, the benefits of private direct foreign investment are likely to exceed the costs by a substantial margin; in a protected environment the costs may well exceed the benefits.

C. International co-operation for the alleviation of poverty

1. Analytical findings

18. Persistent poverty is a product of inappropriate structures and poor policies. A major characteristic of the poor is their lack of productive physical assets and human capital.

19. During the 1980s, the numbers of the absolute poor increased in the developing countries as a whole. In Africa, the absolute poor have also increased as a proportion of the total population. In most countries implementing structural adjustment programmes, the incidence of poverty has risen.

20. Where growth has been sustained and rapid, as has been the case in many countries in Asia and a few elsewhere, the potential for poverty alleviation has been increased. Poverty has declined, both in absolute and relative terms.

21. Poverty alleviation should not be viewed as a matter of charity. The poor should be seen as having the potential to become highly productive; investing in poverty alleviation should be seen as having a potentially high rate of return.

22. Governmental programmes as a whole - the system of taxation, the incidence of subsidies and tax incentives, the impact of regulations, the burden of the "inflation tax" - have in many countries been biased against the poor.

23. A few countries with low per capita income and modest growth rates have managed to design and implement policies which have been highly successful in improving the lot of the poor.

2. Conclusions for policy

24. The primary requirement for the eradication of poverty is sustained political commitment. Given that political commitment, what is needed is more anti-poverty projects but a development strategy centred on the elimination of poverty, including a general improvement of women's social, economic, cultural and legal status. A well-conceived development strategy should aim at accelerating growth and eliminating poverty simultaneously.

25. In designing a strategy for poverty alleviation, policy makers should examine the net impact of the multiplicity of governmental activities and not any particular subset of activities that happen to have an anti-poverty label attached to it. They should examine in particular the effect of the sum total of their activities on the incomes of the poor - women and men alike.

26. A well-conceived strategy should include a broad and consistent set of measures, including most of those indicated below in summary form and expanded upon in chapter IV:

(a) Redistribution of land;

(b) Greater provision of agricultural services and rural infrastructure;

(c) Greater investment in the development of human resources;

(d) Removal of bias against the poor in expenditures on infrastructure;

(e) Social and legal reforms to enhance the full participation of women in economic and social institutions;

(f) Removal of unnecessary constraints on urban industry, especially small-scale enterprises, ensuring that prices of credit and other inputs reflect real scarcities;

(g) Family planning programmes and provision of birth control facilities;

(h) Greater democracy and participation of the poor in local electoral politics and in the creation of organizations that support their cause.

27. The major responsibility for eradicating poverty necessarily rests with the developing countries themselves, but international co-operation can provide effective support to their efforts. The most obvious way this can be done is by creating a global environment conducive to accelerated and sustained growth. Perhaps the most effective area of international co-operation is international trade. The developing countries need expanding markets for their exports in the developed countries in order to increase employment and raise the productivity of labour in both rural and urban areas. Equally important for many countries is greater progress towards solving the international debt problem. Additional bilateral official development assistance (ODA), more focused on poverty alleviation, can also contribute.

28. The International Monetary Fund (IMF), World Bank and regional banks can contribute through their financial and lending policies to faster growth and by setting conditions for lending which take into account the impact on poverty of the programmes which their lending is meant to support.

29. The work of the many specialized agencies is another area where more effective international co-operation in the eradication of poverty should be possible. Several of the United Nations agencies now focus quite explicitly on poverty reduction. A major area of importance is technical assistance, particularly the training component, which fosters the development of human resources.

II. THE WORLD ECONOMY AT THE BEGINNING OF THE 1990s 1/

30. As we enter the 1990s, the world economy appears narrowly to have avoided a major recession, but the outlook for development and the alleviation of world poverty is not particularly encouraging. A reduction in the rate of growth began in 1989 and appears likely to intensify in 1990, but some acceleration in growth of output is expected to begin in 1991. The outlook for individual countries and for groups of countries is, however, rather varied (see table 1). Many Eastern European and developing countries are expected to experience an absolute decline in output, and in others the rise in output is expected to be less rapid than the growth of population, so that output per head will fall. South-East Asian countries, on the other hand, appear to be in a position to grow more rapidly than developed market economies. The outlook for the first four years of this new decade is for no increase in per capita income in Africa and a rate of growth in Latin America of less than 1 per cent a year.

31. Given a continuation of restrictive monetary policies and the expected decline in growth rates throughout much of the world, both domestic demand and exports are expected to decelerate in most developed market economies in 1990, particularly in North America. In the Federal Republic of Germany, however, the rate of growth is expected to accelerate, stimulated by increases in exports to the German Democratic Republic. In the medium term, growth in the EEC is expected to remain above its long-term trend, primarily because of strong import demand induced by the completion of the Single Market in 1992 and by the economic reforms under way in Eastern Europe and the USSR. Moderate sustained growth is also expected in Japan and in North America. Despite this, unemployment, especially in Europe, is expected to remain a serious problem.

32. The short-term outlook is dominated by the far-reaching changes under way in Eastern Europe and the USSR. The integration of these economies into the world economy is expected to be accompanied by substantial transitory adjustment costs, reflected in declining output or very slow growth for the next two or three years, but to lead to accelerating growth by 1994. There is, of course, considerable uncertainty regarding this aspect of the medium-term outlook. On the one hand, the transitory adjustment costs may be even higher and spread over a longer period of time, suggesting a less encouraging prognosis and less stimulus to growth in other parts of the world economy. On the other hand, external capital flows and exports to these countries may be significantly increased compared to the assumptions in the baseline scenario. Although this would help to accelerate growth in Eastern Europe, there is concern that higher interest rates and more pressure on governmental budgets could result in a reduction in the availability of external finance for developing countries.

33. Regarding world trade, the medium-term prospects are for a modest decline in the rate of growth of the volume of exports in 1990 from the high levels of 1988 and 1989. None the less, the average rate of growth is expected to be more than 5 per cent through 1994, which would be higher than the average rate of growth of the 1970s or 1980s. This growth is expected to result from continued strong growth in demand for imports of manufactured goods. Prospects for non-fuel primary commodities are expected to be bleak, however. Growth in export volumes from primary producing countries is expected to be slower than that of world output, and the terms of trade of these countries are expected to fall considerably in 1990 and to remain depressed in the medium term.

Table 1. Per capita world gross national product
(1970 United States dollars)

	1989	1990	1991	1992	1993	1994	Mean
Developed market economies	2.9	2.2	2.6	2.5	2.5	2.4	2.5
North America	2.0	1.0	1.9	1.9	2.1	2.0	1.8
United States	2.1	1.1	1.9	1.9	2.1	1.9	1.8
Developed East	4.3	3.8	3.5	3.5	3.6	3.8	3.8
Japan	4.6	4.2	3.9	3.8	3.9	4.0	4.1
European Economic Community	3.7	3.4	3.4	3.0	2.6	2.5	3.1
Germany, Federal Republic of	4.2	4.3	4.0	3.0	2.6	2.4	3.4
France	3.2	2.8	3.2	2.7	2.5	2.4	2.8
United Kingdom	2.2	0.6	2.7	3.2	2.2	2.6	2.3
Rest of industrialized	1.3	0.8	0.5	1.7	1.4	1.5	1.2
Developing countries	1.7	1.4	3.3	3.4	3.5	3.7	2.8
Latin America and Caribbean	-1.0	-2.6	2.2	1.7	2.2	2.5	0.8
Argentina	-6.5	0.4	0.5	0.2	0.0	-0.4	-0.8
Brazil	1.5	-9.1	3.9	3.1	3.0	2.9	0.8
Mexico	0.5	2.1	1.7	0.6	2.8	3.7	1.9
Venezuela	-13.2	-1.3	0.6	2.9	1.9	2.3	-1.3
Africa	-0.3	-0.1	-0.5	-0.1	0.3	0.5	0.0
North Africa	0.0	0.3	-0.3	0.5	0.9	0.9	0.4
Algeria	-0.1	-0.1	-1.9	-0.4	-1.0	-0.8	-0.7
Egypt	-0.2	0.1	-0.1	0.4	1.0	0.9	0.4
Sub-Saharan Africa	-0.6	-0.5	-0.7	-0.9	-0.4	0.1	-0.5
Nigeria	-1.0	-0.8	-1.8	-2.5	-0.1	1.0	-0.9
South and East Asia	4.6	4.1	4.5	4.3	4.3	4.5	4.4
Hong Kong	2.0	-1.4	2.8	3.5	4.6	4.9	2.7
India	3.8	3.5	3.5	3.6	3.6	3.6	3.6
Indonesia	4.1	4.3	4.0	4.1	4.1	4.2	4.1
Republic of Korea	5.0	4.8	5.6	6.0	5.8	5.8	5.5
Taiwan (Province of China)	6.1	5.5	6.6	5.6	5.7	6.0	5.9
Thailand	9.2	7.6	6.9	5.9	5.6	6.1	6.9
China	2.7	3.9	4.9	5.3	5.3	5.2	4.5
West Asia	3.9	1.2	0.3	1.4	1.1	1.0	1.5
Oil-exporting countries	4.7	1.4	0.6	1.8	1.5	1.3	1.9
Oil-importing countries	0.0	0.3	-1.0	-0.7	-0.8	-0.6	-0.5
Mediterranean	-0.1	-1.1	2.8	4.5	3.8	3.7	2.2
Eastern Europe and the USSR	-1.8	-1.9	-0.4	1.1	1.5	2.1	0.1
USSR	-2.7	-1.9	-1.1	0.4	1.1	1.7	-0.4
World total	2.0	1.5	2.3	2.5	2.6	2.6	2.2
Memo							
Developing countries (excluding China)	1.4	0.5	2.7	2.7	2.9	3.1	2.2
Least developed countries	-0.7	0.0	0.1	-0.2	-0.1	0.0	-0.2

34. In world financial markets, interest rates are expected to remain high for several reasons: monetary policy has already been tightened in response to recent increases in inflationary pressures; the fiscal deficit in the United States continues to be large; monetary union between the Federal Republic of Germany and the German Democratic Republic is expected to increase both fiscal and monetary pressures in the Federal Republic of Germany; and interest rates have been raised in Japan, motivated by concerns over the stability of its financial markets.

35. The external economic conjuncture facing developing countries is thus decidedly mixed. Much will depend on their domestic policy responses and on the extent to which the international community is prepared to increase support for countries implementing needed economic reforms. As matters stand now, it appears as if the striking differences in the growth performance of China, Taiwan Province, the Republic of Korea and Thailand in Asia compared to that of so many countries in Africa and Latin America, which characterized the 1980s, are likely to continue. Even so, growth in the newly industrialized economies in Asia is projected to slow as domestic demand rather than exports becomes the more important source of growth; in China too, where inflation has become a problem, growth probably will be slower, but it will remain high none the less. In a number of other Asian countries, growth is expected to accelerate in response to export-led development strategies.

36. Most developing countries in Latin America and the Caribbean are likely to experience a faster rate of growth of total output than in 1989, but because of the expected recession in Brazil, aggregate output of the region may well decrease by 1 per cent in 1990. There have been a number of positive developments creating a more favourable climate for growth. Agreements with commercial bank creditors have reduced interest payments in Mexico, Venezuela and Costa Rica, three countries where strong adjustment programmes are in place. There has been a cessation of hostilities in Nicaragua, and the prices of oil and some minerals have strengthened. An ambitious adjustment programme was recently introduced in Brazil, the positive effects of which can be expected to appear only gradually. A number of other countries, however - notably, Argentina and Peru - have not yet been able to implement an effective adjustment programme, and they are experiencing hyperinflation combined with slow growth. Heavy debt service obligations continue to hamper the efforts of a number of debtor countries to correct the problems of low investment and hyperinflation. Thus it is that medium-term growth prospects for the region are somewhat improved but far from adequate. After nine years of falling per capita income and with large underutilized industrial capacity, per capita growth in the region as a whole is expected to accelerate gradually, to 2.5 per cent by 1994. Even this rate of growth would not be sufficient to absorb the annual increase in the labour force and, consequently, there is likely to be higher unemployment in the region. For Africa, the projections point to a thoroughly dismal picture of stagnant output and income per capita year after year, with no recovery of the ground lost in the 1980s. In part this reflects the poor prospects for non-fuel primary commodity exports, which account for most of their foreign exchange earnings, and for external capital flows which, although projected to increase, are not sufficient to finance the higher levels of imports which more rapid growth would require. It also reflects the difficulties of implementing policy reforms and the long time lags between the introduction of reforms and the subsequent supply response.

37. The Committee wishes to make three sets of comments on the policy implications of these projections. First, there is nothing in the projections that makes it impossible for individual countries to break out of the vicious circle that now

keeps them in persistent stagnation. It may be the case that in some countries the binding constraint on development is less a matter of investment resources than of identifying economic development and market opportunities. Clearly, if finance is not forthcoming or if profits are siphoned off in excessive public or private consumption or in capital flight, development will not be sustained; but the initial shift towards economic growth in present circumstances must come from active entrepreneurship, with an enlarged supply of investment funds playing only a supporting role.

38. Secondly, while the projections reviewed were carried out within a consistent world economic model, it is possible that in fact national economic management in a sufficiently large number of countries may be more successful than is assumed. In that case, the strains on the world economic system as described in the model would not arise. This would alter the basis for the central assumptions on which the projections are based and would require accommodating policy adjustments. It could well be, for instance, that there would be reason to alter assumptions about world-wide interest rates, levels of consumption or savings levels in the OECD countries, or the geographical distribution of capital flows etc. Thus the scope for development in individual countries or regions should not be seen as being decisively constrained by world conditions as depicted in the model.

39. Thirdly, the dismal picture drawn for Africa for the 1990s presents a challenge not only to national Governments in Africa but to the entire world community, including especially the group of countries the performance of whose economies shape the international economic framework within which the smaller and poorer countries must operate. Economic stagnation, like development, is not exogenously determined but is largely in the hands of people. The question must be asked whether it would be tolerable to the world community to witness passively an indefinite prolongation of the economic devastation that has afflicted Africa for so many years.

40. The continued impoverishment of Africa, though likely on present projections, is quite unnecessary. A combination of improved domestic policies, higher national savings and a greater availability of external capital could transform the prospects of many countries. Recent studies of the impact on growth of increasing capital flows to Africa and other developing countries have confirmed the results of previous studies indicating that feasible injections of external finance could increase the rate of growth significantly. One such study, 2/ based on the baseline projection shown in table 1, suggests that gradually increasing net capital transfers to 25 billion dollars by 1994 could raise the rate of growth of capital-constrained developing countries by about 1 percentage point a year. Another recent study 3/ estimates that increasing net capital transfers by 40 billion dollars in 1990 and to 60 billion dollars by 2000 could raise the average growth rate of developing countries to at least 5.5 per cent for the decade as a whole.

41. Increasing capital flows from developed market economies to developing countries as well as to Eastern European countries in support of their reform efforts would appear to be highly unlikely were it not for the possibilities of reducing military expenditures arising from recent changes in East/West political relations. At the very least one would hope that the much discussed peace dividend would be translated into a reduction in the net outflow of financial resources from poor countries to rich.

42. None the less, there is every likelihood that GDP growth, especially in the poorest countries, will remain low for the next several years and that persistent poverty will continue to characterize a great many countries. This is all the more reason to be concerned about careful allocation of resources. As chapter IV argues, significant progress in alleviating poverty is possible, even in very poor countries, with carefully designed policies. Eliminating poverty over the space of, say two generations, however, would be impossible without accelerating growth.

III. REGIONAL AND MULTILATERAL TRADING ARRANGEMENTS

43. Countries which have achieved high rates of growth and development regard the role of international trade as extremely important. The precise nature of the relationship between trade and development is not established, but it is generally agreed that exports not only enable countries to ease their balance-of-payments constraints but also, by exploiting comparative advantage, improve resource allocation and utilization. Trade also opens the economy to international standards of productivity.

44. Throughout the world, however, tension between regional and multilateral trade vies for centre stage. Theoretical and intellectual arguments, practical economic policy questions and political concerns go back to the 1920s and 1930s when "beggar my neighbour" policies resulted in high barriers to trade. Preferential trading arrangements led to substantial trade diversion. The economic policies of the 1930s thus undermined living standards throughout the world, particularly in the colonial countries, creating the conditions that led to today's extremes of poverty. The same policies played a major role in giving rise to the militarism which precipitated the Second World War.

45. The development of a multilateral trading system has been a corner-stone of the post-World War global economic environment. The Dillon, Kennedy, Tokyo and now the Uruguay multilateral negotiations have turned the General Agreement on Tariffs and Trade (GATT) into a practical framework for international trade on terms from which all trading partners can benefit. The process of negotiation in communicating the details of trade relations is as important as the outcome of the negotiations.

46. The maintenance of an open global trading framework is of the utmost importance to all nations, but particularly to centrally planned economies seeking to enter the market system and to developing countries, especially to the smaller and less developed among them. All countries have an interest in ensuring that the Uruguay Round is successful. They also have an interest in ensuring that regional trade arrangements are part of the global trend towards openness and trade liberalization.

A. Assessment of trade trends

47. The growth of international trade has been a remarkable characteristic of the economic changes of the past 45 years.

48. The merchandise trade of developed market economies has grown more rapidly than that of developing countries during most of the period since 1965 and, particularly, during the 1980s (see table 2). The difference is partly explained by the high proportion of internal trade in large countries such as India and China in contrast to the high rate of international trade transactions among European market economies, but to a considerable degree, it is also the result of the lesser weight placed on international trade in the past by many developing market economies compared with developed market economies.

Table 2. Average annual real growth of the export earnings of developed market economies and developing countries, 1965-1987

	Current prices, 1987 (Billions of US dollars)	Average annual real growth rate (percentage)				
		1965-1970	1970-1975	1975-1980	1980-1987	1965-1987
Developed market economies						
Merchandise	1 722	10.8	5.4	5.9	4.1	5.9
Non-factor services	409	..	-3.0	3.1	5.1	1.8
GNP at market prices	8 932	4.5	3.2	3.5	2.4	2.7
Developing countries	532	8.5	-0.1	5.5	2.3	3.0
Non-factor services	104	..	1.4	8.2	2.7	4.7
GNP at market prices	2 757	6.3	5.9	5.7	2.7	4.6

Source: Calculated from United Nations commodity trade and IMF balance-of-payments data.

49. Service earnings account for nearly 25 per cent of the merchandise export earnings of developed market economies, and almost 20 per cent of the merchandise export earnings of developing countries (table 3).

50. Primary product export earnings (excluding fuels) of developed market economies are more than double those of primary product exports from developing countries. Their growth has also been higher for the 1965-1987 period than the growth of primary export earnings from developing countries. Fuel export earnings from developing countries are higher than fuel export earnings from developed market economies, but fuel export earnings from developed market economies have been growing more rapidly than fuel export earnings from developing countries. The boost to fuel prices in the 1970s brought new producers into the market and stimulated energy conservation, so that prices fell in the 1980s.

51. The principal expansion in trade has occurred in manufactures, with the rapid growth both of inter- and intra-industry trade. Differences in factor endowments continue to be important in trade in manufactures, but the bulk of trade in manufactures consists of intra-industry trade among developed market economies which exploits economies of scale, specialization and product differentiation. Trade in manufactures among developed market economies has been stimulated by their mutual reduction of trade barriers. It has led to intensive competitive markets with resulting gains in productivity. Inefficient firms are driven out of business and replaced by highly competitive ones. There are also costs. Workers have to retrain and move to new locations, but gains that come in the form of higher incomes, higher quality and cheaper consumer goods (including housing) are thought to outweigh the costs.

Table 3. Product composition of the export earnings of developed market economies and developing countries, 1965-1987

(Percentage, unless otherwise indicated)

	1965	1975	1987
Developed market economies			
Manufactures a/	69	75	80
Primary products b/	28	20	15
Fuels c/	3	5	4
Total merchandise exports	100	100	100
Merchandise exports (Billions of US dollars, current prices)	127	573	1 722
Non-factor services as percentage of merchandise exports	..	24	24
Developing economies			
Manufactures a/	18	22	56
Primary products b/	58	29	22
Fuels c/	23	48	22
Total merchandise exports	100	100	100
Merchandise exports (Billions of US dollars, current prices)	36	183	532
Non-factor services as percentage of merchandise exports	..	17	19

Source: Calculated from United Nations commodity trade and IMF balance-of-payments data.

a/ Standard International Trade Classification (SITC, revised), Statistical Papers, Series M, No. 34 (United Nations publication, Sales No. E.61.XVII.6): SITC 5+6+7+8+9-68.

b/ SITC 0+1+2+4+68.

c/ SITC 3.

52. In trade in manufactures, 79 per cent of the exports of developed market economies go to other industrial countries and 21 per cent go to developed market economies; from developing countries, 73 per cent go to developed market economies and only 27 per cent go to other developing countries.

53. The exports of manufactures from developing countries have grown even more rapidly than the exports of manufactures from developed market economies since 1970. They mainly take advantage of the relatively high labour endowment of the developing countries and thus take the form of inter- rather than intra-industry trade. The average annual real growth of manufactured exports from developing countries has been nearly 12 per cent a year since 1965. Growth peaked at over 16 per cent per annum in 1975-1980 and was high at over 10 per cent per annum in the 1980s.

54. Although the exports of manufactures from developing countries are low compared to those from developed market economies, they account for more than half of developing country exports (table 3).

55. The change in the composition of exports has been similar in developed market economies and developing countries, but it has lagged in developing countries, particularly in large countries. Some developing countries can no longer be described as exporters of primary products and importers of manufactures. A dozen or so countries which have been developing rapidly have been approaching the trade characteristics of developed market economies. However, many developing countries remain dependent on exports of primary products.

56. Once allowance is made for the sizes of countries, their geographical location and resource endowment, the trade intensity of most developed market economies is broadly of the same order of magnitude, but the export intensity of developing countries is also affected by differences in their economic policies. Twelve countries account for 78 per cent of the exports of manufactures of developing countries (table 4).

57. The four East Asian newly industrializing economies stand out in terms of high per capita exports of manufactures. While re-exports that have minimal value-added play some role in the exports of Hong Kong and Singapore, most re-exports require considerable intermediation by production or service enterprises and thus contribute to value-added.

58. The trade data of centrally planned economies is not available on the same basis as for other countries and is distorted by admini tered prices (table 5).

59. With the exception of Hungary, the participation of the centrally planned economies in trade with developed market economies and developing countries has been a small proportion of their low trade volume (see table 6).

Table 4. Exports of manufactures by leading developing country exporters of manufactures, a/ 1965 and 1987

	1965			1987			1965-1987	
	Exports (Millions of US dollars)	Share (Percentage)	Per capita (US dollars)	Exports (Millions of US dollars)	Share (Percentage)	Per capita (US dollars)	Exports (Average annual real growth; percentage)	Per capita
Taiwan, Province of China	189	3	15	49 360	17	2 509	20.4	25.4
Hong Kong	995	15	277	44 780	15	8 173	10.7	16.5
Republic of Korea	104	2	4	43 580	15	1 037	23.9	29.5
China	1 021	16	1	27 622	9	26	9.6	15.8
Singapore	339	5	180	20 477	7	7 846	15.3	22.5
Brazil	134	2	2	11 750	4	83	18.5	23.5
Mexico	165	3	4	9 774	3	119	10.7	15.5
Yugoslavia	617	9	32	8 942	3	382	6.4	14.2
India	828	13	2	8 658	3	11	3.3	10.4
Pakistan	191	3	4	2 801	1	27	2.3	8.4
Argentina	84	1	4	2 013	1	65	6.2	14.2
Chile	28	b/	3	448	b/	36	12.2	13.2
Total	4 697	71	3	230 205	78	99	12.2	18.3
Other developing countries	1 875	29	3	65 952	22	53	11.0	16.0
All developing countries	6 572	100	3	296 157	100	83	11.9	17.7

Source: Calculated from United Nations commodity trade data.

a/ Standard International Trade Classification (SITC, revised), Statistical Papers, Series M, No. 34 (United Nations publication, Sales No. E.61.XVII.6): SITC 5+6+7+8+9-68.

b/ Less than 1 per cent.

Table 5. Exports of member countries of the Council for Mutual Economic Assistance, 1980-1988

	1988 (Billions of US dollars)	Average annual real growth rate, 1980-1987 (percentage)
USSR	110.7	4.0
German Democratic Republic	27.8	6.4
Czechoslovakia	27.8	6.4
Cuba	6.2	-8.5
Hungary	19.0	1.2
Bulgaria	17.4	6.0
Poland	13.5	-1.8
Romania	13.1	1.0

Source: GATT International Trade, 1988-1989 (Geneva, 1989), vol. II. Developments in World Trade. Table A2.

Table 6. Exports from member countries of the Council for Mutual Economic Assistance, by share of destination, 1988

From/to	Eastern Europe	USSR	Developed market economies	Developing countries	Other
Eastern Europe	23	38	27	8	5
USSR	49	-	22	14	15

60. The growth of intra-regional trade was rapid in Latin America in the 1960s and 1970s but has been slow in all developing regions except East Asia in the 1980s. Apparently, for developing countries wishing to exploit comparative advantage, the greatest trading opportunities are between countries with different resource endowments. Thus, within East Asia, there have been growing opportunities for raw material exports to the rapidly industrializing countries of the region. Some exports of labour-intensive manufactures go from the poorer, low wage, countries to those with rapidly growing incomes (table 7).

Table 7. Growth of intra-regional merchandise exports, 1980-1987

	1987 (Billions of US dollars)	Average annual real growth rate, 1980-1987 (percentage)
Africa	5	0.9
South Asia	1	1.2
East Asia (excluding Japan)	106	14.0
Western Europe	904	5.6
Middle East	6	-4.5
Latin America and Caribbean	15	-4.1
Eastern Europe and USSR	128	5.6
North America	151	6.4

61. The growth of intra-regional trade has also been rapid within Western Europe and North America: there intra-industry trade in manufacturing was the main source of trade growth.

62. Traded goods know no origin or destination. International monetary arrangements made the multilateral settlement of trade balances possible soon after the Second World War, despite fixed exchange rates. More recently, flexible exchange rates and liberal credit flows have further facilitated multilateral trade flows.

63. The importance of markets for exports of manufactures from the developing countries to the developed market economies is illustrated in table 8.

Table 8. Average annual real growth of trade in manufactures a/ between developed market economies and developing countries, 1965-1987

	Current prices, 1987 (Billions of US dollars)	Average annual real growth rate (percentage)	
		1980-1987	1965-1987
Exports from developing countries to:			
Developed market economies	194.2	12.5	12.8
Developing economies	73.7	4.1	10.4
Exports from developed market economies to:			
Developed market economies	1 023.7	6.6	6.4
Developing economies	295.8	-1.2	6.7

Source: Calculated from United Nations commodity trade data.

a/ Standard International Trade Classification (SITC, revised), Statistical Papers, Series M, No. 34 (United Nations publication, Sales No. E.61.XVII.6): SITC 5+6+7+8+9-68.

1. Terms of trade

64. Countries cannot exploit their comparative advantage bilaterally. Policy distortions may exacerbate bilateral trade imbalances and thus lead to economic and political conflict, but in the absence of such distortions, bilateral trade relations are of little concern. The key to the growth of trade and, hence, to increasing trade opportunities for individual countries is the maintenance and expansion of the multilateral trading framework and the monetary arrangements associated with it.

65. Most of the world's trade (particularly its most rapidly growing components) takes place on market terms, although part of this is intra-firm trade. Various forms of planned trade (also known as barter trade or counter trade), despite the very considerable bureaucratic effort devoted to them, have failed to deliver the benefits of market trade in terms both of price and quality. Barter trade subsidizes inefficient producers and, thus, keeps them in business. It does not, therefore, lead to the better allocation of productive resources, greater productive efficiency or the other benefits of trade conducted in a market environment. However, for many centrally planned economies, it is proving difficult to move from planned trade and associated bilateral trading notions. If a country sells raw materials to another country, it may nevertheless buy consumer goods from a third country that sells them at a lower price than the importer of raw materials.

66. Since the main objective of exporting is to buy imports, the terms of trade a country obtains are of some importance. In the short run, the concern is with barter terms of trade (the prices of exports divided by the prices of imports) which are relevant to the short-run balance of payments, but, in the long run, attention must be focused on how income terms of trade (export earnings divided by the prices of imports) affect the long-run balance of payments.

67. Barter terms of trade differ from country to country. They are very difficult to determine for groups of countries. Partly this is because unit prices of manufactured goods are impossible to calculate and partly because the weighting of "baskets" of goods varies. Barter terms-of-trade estimates are quite different according to the source of estimation, not only in percentage terms but sometimes also in direction. Long-run barter-term calculations have little policy use and are particularly difficult to interpret because of the difficulty of valuing the changes in quality in manufactured goods. Income terms of trade are more useful for policy purposes, although they are also very difficult to measure. It is clear that most countries with reasonably rapidly growing exports have improved their income terms of trade since 1965. At times they have had to worsen their barter terms of trade - that is, reduce their export prices, in order to win a larger share of the world market and, hence, to improve their income terms of trade.

68. Export pessimism has had an important role in determining trade policy in the past. Initially, it was argued that developing and centrally planned economies could not compete with developed market economies because the barter terms of trade were biased against them and because newcomers could not compete with established producers. These arguments had been proved erroneous by the end of the 1960s. Japan had used trade to catch up rapidly with the industrial economies. By the 1970s it was clear that the East Asian newly industrializing economies had also successfully followed a trade-led growth path, while countries that accepted trade pessimism were lagging behind. However, export pessimism attained a new lease on life as developed market economies reintroduced non-tariff barriers in the 1970s. Exporters of manufactures were undoubtedly affected by these measures, but the growth of manufactures exports peaked during 1975-1980. Another argument was then found to support export pessimism. It was said that the penetration of the markets of developed market economies by exports of manufactures from developing countries was reaching unsustainable levels.

2. Market penetration

69. Analysis of the penetration of the markets of developed market economies by developing countries and centrally planned economies suggests somewhat different conclusions (table 9).

70. The two most important trends have been the growth in overall apparent consumption in developed market economies and the rise in the share of imports in consumption (table 10). The competitiveness of the developing country economies - but to a much lesser extent, of the centrally planned economies - is indicated by their taking over a part of the domestic markets and exports of the developed market economies.

71. The share of imports of developing and centrally planned countries in apparent consumption in most industrial economies is relatively low (table 10). There is thus room for further penetration and for a further movement from developed market economy suppliers to developing and centrally planned country suppliers.

Table 9. Apparent consumption and the share of imports of developed market economies, 1987

	Apparent consumption of manufactures in developed market economies, 1987 (Billions of US dollars)	Share of imports in apparent consumption of manufactures, 1987 (percentage)			
		Total	Developed market economies	Developing countries	Centrally planned economies
United States	2 878.7	12.5	8.2	4.2	0.1
European Community	2 059.1	33.4	28.5	4.0	0.8
Germany, Federal Republic of	541.3	34.7	28.7	4.9	1.1
France	513.6	22.6	19.2	2.5	0.6
United Kingdom	426.3	31.3	25.6	3.9	0.5
Italy	388.3	25.3	21.0	3.5	0.8
Netherlands	109.8	68.2	58.6	5.8	1.7
Belgium/Luxembourg	79.8	84.6	77.6	5.2	1.5
Japan	1 737.6	4.8	2.8	1.9	0.1
Canada	244.7	31.9	28.9	3.0	0.1
Australia	89.3	26.7	20.7	5.5	0.1
Sweden	92.6	38.9	34.4	3.1	1.2
Finland	58.0	29.9	24.2	1.6	4.2
Norway	45.8	45.6	40.9	3.9	0.8
Developed market economies	7 206.9	18.0	14.0	3.5	0.3

Source: Calculated from United Nations commodity trade data and OECD production data.

Table 10. Average annual real growth of the apparent consumption and growth of shares of imports of manufactures a/ in apparent consumption in developed market economies, 1970-1987

	Current prices, 1987 (Billions of US dollars)	Average annual growth rate (percentage)				
		1970-1975	1975-1980	1980-1987	1970-1980	1970-1987
Apparent consumption b/	7 206	3.2	3.7	2.4	2.8	2.2
Imports from:						
Developed market economies	1 027	5.7	7.1	5.7	5.5	5.0
Developing countries	253	11.1	10.9	7.8	9.2	8.4
Centrally planned economies	24	11.6	7.4	-0.4	8.3	4.5
Other	12	5.0	45.7	6.3	8.1	8.2
World	1 316	6.6	7.9	6.0	6.1	5.5

Source: Calculated from United Nations commodity trade data and OECD production data.

a/ International Standard Industrial Classification of all Economic Activities (ISIC), Statistical Papers, Series M, No. 4/Rev.2 (United Nations publication, Sales No. E.68.XVII.8): ISIC 3.

b/ Domestic production + imports - exports. Apparent consumption is deflated by the GDP deflator of the developed market economies. Imports of manufactures are deflated by the price index of world manufactures exports.

72. Market penetration differs by source of origin of exports from the developing countries. East Asia clearly leads (table 11).

Table 11. Share of developing country imports in the apparent consumption of manufactured goods in developed market economies, by region of origin, 1987

(Percentage)

	East Asia	Latin America and the Caribbean	South Europe	South Asia	Africa
United States	2.4	1.1	0.2	0.3	0.04
European Community	1.4	0.5	1.0	0.4	0.2
Germany, Federal Republic of	1.8	0.6	1.5	0.5	0.1
France	0.9	0.4	0.5	0.3	0.3
United Kingdom	1.8	0.4	0.7	0.4	0.2
Italy	0.6	0.6	1.0	0.4	0.2
Netherlands	2.4	0.9	1.2	0.5	0.2
Belgium/Luxembourg	1.3	0.7	1.1	0.5	1.1
Japan	1.2	0.2	0.0	0.3	0.03
Canada	1.6	0.9	0.1	0.3	0.03
Australia	3.8	0.3	0.2	0.7	0.02
Sweden	1.5	0.3	0.9	0.4	0.03
Finland	0.7	0.3	0.5	0.2	0.1
Norway	1.3	0.9	0.8	0.5	0.2
Developed market economies	1.8	0.7	0.4	0.4	0.1

Source: Calculated from United Nations commodity data and OECD production data.

73. Market penetration varies by product as well as by country (table 12). It is highest, at about 30 per cent, in textiles, clothing and footwear and in miscellaneous manufacturing, which includes musical instruments, toys and sports equipment. In some sub-categories of these industries and in machinery, market penetration reaches 60 per cent and more.

74. Developing countries have to concern themselves with overall trends in their principal markets. For example, the apparent consumption of textiles, clothing and footwear is no longer growing appreciably. The slow growth of demand has led to protectionism and in turn is a major reason for the difficulties that developing and centrally planned countries find in exporting these products. Consumers in developed market economies are spending the increases in their rising incomes on complex manufactures and services, just as in the not too distant past their expenditures on food stabilized. Developing countries will have to move to other high-volume areas of apparent consumption, particularly those which are still growing (table 13).

Table 12. Apparent consumption and import shares in developed market economies, by product, 1987

Product a/	Apparent consumption (Billions of US dollars)	Growth in apparent consumption, 1980-1987	Total	Developed market economies	Developing countries (percentage)	Centrally planned economies
31 Food, beverages and tobacco	1 069	1.8	9.4	7.0	2.2	0.2
32 Textiles, clothing and footwear	407	0.5	30.3	14.7	15.4	0.6
33 Wood and wood products	217	0.9	14.4	10.5	3.0	0.9
34 Paper and paper products	517	2.4	11.0	9.7	1.0	0.1
35 Chemicals and plastics	1 792	4.4	14.8	11.0	2.9	0.6
36 Non-metallic mineral products	213	1.4	12.3	10.3	1.7	0.2
37 Basic metal industries	496	0.1	17.7	14.1	3.0	0.6
38 Machinery and transport equipment	2 408	2.6	20.5	18.5	1.4	0.2
39 Miscellaneous manufactures	86	2.2	31.5	15.8	13.2	0.6
3 All manufactures	7 206	2.4	18.3	14.3	3.5	0.3

Source: Calculated from United Nations commodity trade data and OECD production data.

a/ See International Standard Industrial Classification of all Economic Activities (ISIC), Statistical Papers, Series M, No. 4/Rev. (United Nations publication, Sales No. E.68.XVII.8). Numbers at left are ISIC classifications.

Table 13. Share of imports in the apparent consumption of manufactured goods in the developed market economies, 1970-1987

(Percentage)

Product a/	East Asia	Latin American countries	South Europe	South Asia	Africa	East Asia	Latin American countries	South Europe	South Asia	Africa
	Share of apparent consumption, 1987					Average annual growth rate of share of imports in apparent consumption, 1970-1987				
31 Food, beverages and tobacco	0.6	0.9	0.2	0.2	0.2	5.1	-0.9	1.0	-2.4	1.9
32 Textiles, clothing and footwear	7.5	1.1	2.5	3.3	0.2	27.6	6.6	8.7	9.2	4.5
33 Wood and wood products	3.0	0.5	0.5	0.1	0.2	11.3	3.4	3.5	9.3	-1.8
34 Paper and paper products	0.5	0.2	0.2	0.1	0.0	24.0	15.4	3.2	14.5	-2.9
35 Chemicals and plastics	1.0	0.6	0.3	0.2	0.1	14.9	-1.1	4.8	10.4	4.5
36 Non-metallic products	0.9	0.4	0.3	0.1	0.0	35.2	10.1	8.1	9.9	-5.2
37 Basic metal industries	0.8	1.1	0.3	0.1	0.4	19.5	3.6	2.4	3.4	-5.9
38 Machinery and transport equipment	2.0	0.6	0.2	0.1	0.0	43.9	13.2	6.8	8.8	-2.6
39 Miscellaneous manufactures	7.6	0.8	1.6	2.4	0.5	20.5	4.2	6.0	10.6	5.7
3 All manufactures	1.8	0.7	0.4	0.4	0.1	16.4	2.6	4.8	6.8	-3.7

Source: Calculated from United Nations commodity trade data and OECD production data.

a/ International Standard Industrial Classification of all Economic Activities (ISIC), Statistical Papers, Series M, No. 4/Rev.2 (United Nations publication, Sales No. E.68.XVII.8). Numbers at left are ISIC classifications.

75. The East Asian countries have the lion's share of the developing countries' penetration of developed market economies.

76. Although demand growth cannot be expected to be infinite, there is still ample room in developed market economy markets for increasing imports from developing and centrally planned countries. Markets are likely to become more competitive as the centrally planned economies, which have in the past been small participants in trade, become serious about competing in world markets. More developing countries will want to participate in international trade. The developing and centrally planned economies will need to free up their markets in order to give the developed market economies opportunities to export to them and thus provide the impetus for accelerating adjustment in developed market economies.

B. Assessment of trading blocs

77. Trading arrangements and "trading blocs" can be used to cover a number of different schemes. The main possibilities are:

(a) Preferential trading arrangements, in which a country applies lower tariffs to imports from a specified group of countries; or members apply lower tariffs to imports from each other than to those from non-member countries;

(b) Free trade areas (FTA), in which members completely eliminate tariffs against each other, while maintaining their individual protection régimes for other trade. The European Free Trade Association (EFTA) is a leading exponent, except for agriculture. The United States/Canada and United States/Israel FTAs and the Australia/New Zealand Closer Economic Relations Trade Agreement (CER) are recent examples. LAFTA is one of the oldest free trade areas;

(c) Customs unions, which are like FTAs but have a common external tariff. The European Community (EC) is a customs union, but also goes beyond;

(d) Common markets. The European Community hopes to see the completion of a process in 1992 whereby it is transformed from a customs union into a common market in which members eliminate barriers to trade in goods and services as well as to movements of capital and labour;

(e) Economic unions, with complete economic integration to the point of common fiscal, monetary (currency) and socio-economic policies. Examples of complete integration of this kind are "federations" such as the United States, the USSR and India.

78. These various arrangements are sometimes given the generic title of geographically discriminatory trading arrangements (GDAs).

79. The analytical difficulty posed by such arrangements is that they are at once trade liberalizing (for those inside) and trade restricting for those left out.

80. Economics is not very good at answering questions about the welfare effects of moves from one distorted policy to another - that is, in dealing with the problem of the "second best". The very considerable theoretical literature on customs unions illustrates this clearly.

81. The contribution of this extensive literature can be summarized in three rather inconclusive propositions:

(a) A country can be better or worse off from participating in a discriminatory trading arrangement, depending on its size, the nature of its trade and that of its trading partners, its initial (relative) protection levels, the scope for economies of scale and other factors;

(b) Tariff reductions within a geographically discriminatory trading arrangement may or may not bring larger gains to a country than could be obtained through non-discriminatory reductions;

(c) The extent to which global welfare is worsened by discriminatory trade arrangements is similarly dependent on the circumstances of the case in hand.

A fourth result - and the only conclusive one - is that global welfare will always be increased more through non-discriminatory reductions in protection than through discriminatory ones.

Trade creation and diversion

82. The most basic theoretical analysis of the effects of trading blocs on the welfare of their members has been conducted, since Jacob Viner's (1950) seminal contribution, in terms of the concepts of "trade creation and diversion".

83. Trade creation occurs when partner-country imports displace higher-cost domestic production and, through lower prices, allow greater domestic consumption of the products concerned, generating additional trade and raising real national income in the process.

84. Trade diversion occurs when increased trade among the regional partners exists merely at the expense of lower-cost imports from outside the block without any increase in total trade or consumption, thus lowering real national income.

85. Trading blocs usually give rise to both trade creation and trade diversion. Whether members gain overall depends on which of the two predominates and whether the factors described below apply.

Economies of scale and specialization

86. A regional trade arrangement, by increasing the market for suppliers within a region, opens the possibility of increasing economies of large scale production. This can mean that even where a regional arrangement initially causes trade diversion, subsequent scale effects could reduce the cost of that diversion and possibly outweigh it through income effects.

87. The presence of scale effects means that, in addition to expansion of existing trade, there may be specialization within industries and trade at a more disaggregated product level than before. Scale is the main economic argument used to support regional trading blocs among developing countries.

Increased productive efficiency

88. Import competition provides an important discipline on domestic firms to minimize costs and maximize productivity. To the extent that this is blunted by national protection, there could be a loss of productive efficiency, especially where local firms can tacitly share markets. Whether regional trade liberalization will help depends on how efficient other suppliers within the region are and the nature and height of barriers removed.

Gains in export markets and improved terms of trade

89. The traditional analysis of geographically discriminatory trading arrangements assumed perfectly elastic supply (constant costs) on the part of exporting countries, so that any welfare gains would be appropriated by the liberalizing country's consumers. The resulting focus of economic analysis on the import side of the arrangement, however, is the opposite of actual policy motivation - namely, export growth. In practice, exporters favoured by discriminatory liberalization

are the only unambiguous gainers from such an arrangement, through higher prices and increased exports.

90. Since the theoretical analysis of regional blocs is ambivalent for outcomes on living standards within the blocs, a great deal of effort has been devoted to empirical studies of trading blocs. The results of these studies are somewhat less ambivalent.

91. The European Community has been at the centre of regional bloc studies. Its tariff reductions on manufactured goods were largely non-discriminatory as part of the multilateral trade negotiations and, thus, gave open access to other countries to the EC market for manufactures, as did EFTA's tariff reductions. The EC's Common Agricultural Policy, which has been discriminatory, has in contrast resulted in high barriers against the rest of the world. It has been costly in terms of EC employment, EC budgets and to EC consumers and has imposed high costs on the rest of the world.

92. Functioning trade blocs among developing countries have also been studied intensively, although many arrangements exist more on paper than in reality. Where developing country trading blocs have been heavily protectionist, their principal effect has been trade diversion rather than trade creation. Although some private firms achieved high profitability, protectionism has reduced income and increased inequality and poverty.

93. Unfortunately, the hope that the developing countries that could not succeed in import substitution in individual markets could, by utilizing economies of scale, industrialize in a regional bloc has proved unfounded. Some of the blocs were simply too small for realistic economies of scale. Countries at different levels of development or with different political philosophies could not agree on the co-operation necessary for regional bloc management. Rules of origin and other administrative problems have plagued the blocs, so that to date many of them have not yet become effective. Attempts to divide manufacturing industries among bloc members floundered.

94. The renewed impetus for bloc formation has caused concern because of the trade diverting potential of recently formed blocs. Among developed market economies the enlargement of the EC, the formation of the Canada/United States and Australia/New Zealand blocs and of the Israel/United States bloc have added to discrimination within the global trading system. Only if these blocs were open to all would their effects be unambiguously positive. Then, of course, there would be no need for blocs. Hopefully, multilateral pressures will make these blocs increasingly open, so that income growth effects will dominate.

95. Most proposals for new regional arrangements, notably between the United States and East Asian countries, arise from bilateral imbalances rather than from a liberalization impetus. Not only is this a poor base for stimulus to trade but these initiatives do not appear to have sufficient support to become effective. The recent discussions between the United States and Japan, however, showed a very considerable advance and sophistication in their focus on those of each other's domestic policies that are the cause of their mutual trading difficulties.

96. Proposals for strengthening regional trading arrangements among developing countries are based on the view that inexperienced producers can learn to compete, become more efficient through learning-by-doing, benefit from economies of scale

and the sharing of experience within a trading bloc as a stage to more open exposure later. This view regards regional trading blocs in developing countries as stepping stones to multilateralism.

97. A realistic approach to regional blocs will require a great deal of preparation if expected gains are to be realized. Careful analysis of actual and potential costs and benefits to those within a bloc and those not included within it will be necessary, to ensure equity and growth (see the box).

Box. Who isn't in a "trade bloc"?

European Free Trade Association

Austria
Finland
Iceland
Norway
Sweden
Switzerland

European Community

Belgium
Denmark
France
Germany, Federal Republic of
Greece
Ireland
Italy
Luxembourg
Netherlands
Portugal
Spain
United Kingdom

United States/Canada Free Trade Agreement

Canada
United States

United States/Israel Pact

Israel
United States

Closer Economic Relations

Australia
New Zealand

Economic Community of West African States

Cape Verde
Gambia
Ghana
Guinea-Bissau
Nigeria
Togo

West African Economic Community

Benin
Burkina Faso
Côte d'Ivoire
Mali
Mauritania
Niger
Senegal

Mano River Union

Guinea
Liberia
Sierra Leone

Customs and Economic Union of Central Africa

Cameroon
Central African Republic
Chad
Congo
Equatorial Guinea
Gabon

Lake Chad Basin Commission

Cameroon
Chad
Niger
Nigeria

Economic Community of the Great Lakes Countries

Burundi
Rwanda
Zaire

South African Customs Union

Botswana
Lesotho
South Africa
Swaziland

Central American Common Market

Costa Rica
El Salvador
Guatemala
Honduras
Nicaragua

Association for the Integration of Latin America

Argentina
Brazil
Chile
Mexico
Paraguay
Uruguay

Andean Group

Bolivia
Colombia
Ecuador
Peru
Venezuela

Caribbean Common Market

Barbados
Belize
Guyana
Jamaica
Trinidad and Tobago

Organization of East Caribbean States

Antigua and Barbuda
Dominica
Grenada
Montserrat
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines

Association of South East Asian Nations

Brunei Darussalam
Indonesia
Malaysia
Philippines
Singapore
Thailand

South Asian Association for Regional Co-operation

Bangladesh
Bhutan
India
Maldives
Nepal
Pakistan
Sri Lanka

Council for Mutual Economic Assistance

Bulgaria
Cuba
Czechoslovakia
German Democratic Republic
Hungary
Mongolia
Poland
Romania
Viet Nam
USSR

Economic Co-operation Organization

Iran
Pakistan
Turkey

C. Trading blocs and the multilateral framework

98. Today's multilateral trading framework, although subject to erosion and despite the protectionist measures still in place, is in historical terms relatively open. The growth of non-tariff barriers to trade, unilateral decisions on anti-dumping, and the growth of bilateral trade negotiations by certain developed countries threaten the continuation of an open, multilateral trading system. The achievement of liberal trading and accompanying monetary and credit conditions has taken a great deal of effort. The United States has until recently played a leading role, but, unfortunately, there have been too many "free riders" in the past. Further multilateral liberalization will require more effort, and because of the changes in economic weights in the world economy, developed market, developing and formerly centrally planned economies can no longer afford to shirk their responsibilities. Nor can the United States. Discrimination against trade from the developing countries, as represented by the Multi-fibre Agreement, is counter to the spirit of multilateralism and the creation of a more equitable international economic order. GATT needs the support of all countries, including the USSR and Eastern Europe, if the trading environment is to be improved further.

99. GATT is sometimes characterized as an unwieldy vehicle for trade negotiations because of the large number of countries (about 100) involved in major negotiations. However, bargaining about trade barriers is carried out within GATT among small groups of members - "the principal suppliers" - in each case, so that in practice, the number of negotiators has not created major obstacles to agreement.

100. There have been times when the number and, more importantly, diversity of views, among contracting parties have impeded progress. Nevertheless, GATT provides a vehicle for reaping the largest gains from negotiated reductions in trade barriers. It is the ideal trading bloc, because it can encompass all trading countries. The failure of GATT to deliver universal liberal trade (for which it was designed) is the fault of the members, not of the system. The causes of failure lie in domestic political factors within each country, but they also have an interactive and cumulative aspect. If country A, or group A, does not contribute to GATT negotiations or flouts the rules, country B's task of convincing its own electorate that participation is worthwhile becomes much harder.

101. Most existing and potential regional arrangements are against GATT rules. GATT article XXIV permits countries to form a customs union or free trade area on condition that:

(a) Its purpose is to facilitate trade among the constituent territories and not to raise barriers to the trade of other contracting parties; and

(b) Trade barriers among members of the arrangement are "eliminated on substantially all" their mutual trade.

These rules were designed to limit the scope for such arrangements to lead to ad hoc discrimination. They are not enforced, because much of the motivation for regional blocs is political rather than economic.

D. The role of private direct foreign investment in the development of trading blocs and the growth of multilateral trade

102. Private direct foreign investment is complementary to trade. Mineral development, for example, usually leads to exports. So does investment in labour-intensive manufacturing. Even in "defensive" import-substituting investment in manufacturing, trade flows of inputs - and sometimes of outputs - are stimulated. Investment in banking is often necessary to the development of trade. Where foreign investment stimulates international trade, private returns to investment are generally determined by fairly open and competitive markets. Investments that are not profitable are not undertaken by transnational enterprises or are closed down if they do not turn out to be profitable. In international trade there is usually not a great deal of difference between social and private returns to investment.

103. Foreign investment for import substitution in protected industries raises control issues and is difficult to evaluate. Private returns are, of course, usually high because of the monopoly rents earned in protected activities. However, the social returns associated with such activities are usually low and, often, negative. If a country has a distorted tax structure or other reasons for capital flight, transfer pricing at other than arm's-length prices may become prevalent.

104. Private direct foreign investment can play a role in the adjustment of economies to changing technology, changing factor prices, changing natural resource prices and changing the composition of demand (such as a change from goods to services). But the social costs and benefits that accrue to private direct foreign investment primarily depend on a host country's policies; if the host country environment is open and oriented towards world market prices, the benefits of private direct foreign investment are likely to exceed the costs by a substantial margin; in a protected environment, the costs are likely to exceed the benefits.

105. Whether there is any crowding out of capital from countries outside the EC - for example, in the Maghreb - will depend on the degree to which EC and EFTA policies are trade-diverting rather than trade-creating. Special access for goods from centrally planned economies into the EC and EFTA could also lead to trade diversion, and thus reduce trade and investment.

106. Flows of private direct foreign investment from the old industrial European countries to the new members on the periphery are likely to increase if the income growth of the EC is high.

107. Private direct foreign flows are also likely to accelerate to those former centrally planned countries that will be able to reform their economies sufficiently quickly to attract such investment on a significant scale into industries that can compete internationally.

108. Most private direct foreign investment is reinvestment out of profits earned in the country in which investment takes place. Investment does not come from a fixed "pot". It is related to the activities of transnational corporations, which are constantly growing. Capital flows reflect their increasing capital accumulation and numbers. Those depend on the buoyancy of the global economy and the domestic policies of individual countries.

E. The impact of trading blocs on former centrally planned economies

109. The centrally planned economies reduced their economic growth by not taking advantage of comparative advantage. By ignoring world prices, cutting themselves off from the global pool of technology and ignoring the real costs of factors of production, they were not able to allocate resources effectively or to utilize them efficiently.

110. The consequent economic distortions have led in recent years to economic stagnation and low living standards, so that some centrally planned countries are now more similar to developing than to industrial countries. They now want to catch up. Goods, service and factor markets have to be rebuilt if prices are to be used in resource allocation and utilization. Major shifts in perceptions of how some markets - for example, housing - might operate will be needed. In the short term, the most difficult area to manage will be macro-economic policy, while in the medium term, restructuring of production will be a central concern.

111. All the former centrally planned economies have both a disadvantage and an advantage in their low trade levels and low penetration of the markets of developed market economies. Experience suggests that, with appropriate policies, rapid export growth will be possible.

112. Most of the Eastern European countries should be able to increase their exports, as the successful market-oriented countries have done. If the EC turns inward to favour its less developed member countries, however, the former centrally planned European countries will have difficulty in gaining access to their neighbouring markets. It is for this reason that they are seeking most-favoured-nation treatment and membership in GATT. Major recessions would also make for difficulties. But a rapid growth scenario, following from the joining of forces between the capital and highly skilled labour of European countries, is feasible.

F. The impact of trading blocs on developing countries

113. The importance of developed market economy markets for the rapidly growing exports of manufactures from developing countries is quite clear. Developing countries feel threatened by suggestions for more inward-looking trading arrangements with developed market economies. Market access to EFTA and EC countries, North America and Japan are critical if the developing countries are to be enabled to diversify geographically by destination and product and to move from interindustry to intra-industry trade. Japan is accelerating imports from developing countries. There is room in many product markets for both competing with established exporters and increasing market penetration.

114. The scale of markets in developed market economies is not, however, infinite. If markets are not allocated by price/quality criteria on a non-discriminatory basis but rather on political grounds, the open multilateral system will wind down and so will the progression of exports from low-skilled labour-intensive to higher-skilled and more technology and capital-intensive production. If recessions, severe price fluctuations, global inflationary episodes or other macro-economic mismanagement emerge, export growth will decline, as it always has in the past. If developed market economies retreat from trade creation to trade diversion, world growth will slow and so will exports.

115. The developed market economies must restructure their output to make room for more imports from developing countries. The developing countries, however, must also make appropriate policy adjustments as part of global liberalization. The expansion and strengthening of a multilateral trading framework is an essential component of an international development strategy for the 1990s.

IV. INTERNATIONAL ACTION TO ERADICATE POVERTY

116. As the 1990s began, there was reason to hope that the economic crisis that afflicted many developing countries during the 1980s had abated. Slow but sustained growth in the developed countries, vigorous expansion of international commerce at the end of the decade, the introduction of policies to encourage structural adjustment in many developing countries, plus attempts at an international level to resolve the debt problem gave reason to expect that the incidence of poverty would soon begin to decline in those countries that had suffered most during the previous decade.

117. Alas, it was not to be. In 1989 the rate of growth of gross domestic product in the developing countries as a whole was less than 3 per cent, significantly slower than in 1988 and indeed the lowest rate of growth in the past six years. Moreover, as was shown in chapter I, the outlook remains poor in sub-Saharan Africa, the oil-importing countries of Western Asia and in much of Latin America. The negative growth in per capita income has been such that between 1980 and 1989 average incomes fell in two thirds of the developing countries, many of them small. There is considerable evidence that women's incomes have been reduced disproportionately. In Latin America as a whole, per capita income fell 15 per cent, and in Africa about 30 per cent. In 20 countries of the world, the fall was more than 35 per cent; in 14 countries the fall was between 20 and 35 per cent and in 15 countries between 10 and 20 per cent.

118. In China, and much of East, South-East and South Asia, in contrast, growth was sustained and often rapid. As a result, in those parts of the world the possibility of reducing poverty was much greater and, indeed, in many countries poverty did decline, both relative to the population as a whole and in absolute terms.

119. None the less, in the third world as a whole, the absolute number of persons in poverty continued to increase and in Africa, the relative incidence of poverty also increased. For economic, social, political and legal reasons women are more likely to be poor than men. This underlines the importance of accelerated growth as a central component of any development strategy intended to eradicate poverty. Growth alone will not necessarily suffice, however. Even in China, which has combined rapid growth with a relatively egalitarian distribution of income, there are signs that reform and restructuring have been accompanied by deterioration in certain social indicators of well-being - e.g., a rise in the infant mortality rate of girls.

A. Poverty reduction as a national task

120. A supportive international environment and specific measures adopted at the international level can create conditions which assist efforts to reduce global poverty, although the main responsibility for eradicating poverty necessarily rests at the national level.

B. The definition and location of poverty

121. Absolute poverty refers to a condition characterized by severe deprivation of basic needs and, most importantly, by inadequacy of nutrition. Absolute poverty is hence country-specific, and the magnitude of absolute poverty should be established at the country level when considering specific policies and programmes. It is clear however that in terms of numbers, most of the poor are located in Asia, followed by Africa and Latin America, whereas in terms of proportions of the population, the incidence of poverty is highest in Africa, followed by Asia and Latin America. Most of the poor in Africa and Asia are in rural areas, while in Latin America, the majority of the poor are in urban areas.

122. The major characteristic of the poor is that they lack productive physical assets and human capital. In the rural areas they tend to be the landless or near-landless agricultural and non-farm workers, small landowning peasants, pastoralists, nomads and fishermen. In the urban areas, they are the unskilled, untrained and unschooled people; their productivity is low and they lack physical capital. A high proportion of the poor are women. In all countries households headed by women are the poorest in the community. The poor suffer from undernutrition even when they spend three quarters of their income on food. Their children are generally below average weight for age and suffer from impaired mental and physical development, which jeopardizes their ability to become productively employed as adults. Ill health among the poor is widespread and saps their energy, reduces family incomes and prevents children from taking full advantage of such opportunities for education as exist. Illiteracy is high, life expectancy is relatively low, and infant and child mortality rates are well above average.

C. Investing in the poor

123. Persistent poverty is a product of inappropriate structures and poor policies. Often in the past governmental policies to reduce poverty have been incoherent and inconsistent. They have not formed part of an overall development strategy but have been adopted on an *ad hoc* basis almost as an afterthought. Many anti-poverty projects and programmes have been largely symbolic, and consequently the results have often been disappointing. What is needed is not more anti-poverty projects but a development strategy centred on the elimination of poverty and the explicit improvement of women's social, economic, cultural and legal status.

124. The poor should not be viewed as objects of charity. Nor should they be seen merely as recipients of welfare services, although there is a need in many countries to expand services accessible to the poor. Above all, the poor should be seen as human beings who have the potential to become highly productive, and investing in them should be seen as expenditures with potentially high rates of return. Expenditure on primary and secondary education, vocational training, primary health care and preventive medicine has been shown to have highly favourable benefit/cost ratios. The same is true of investments in infrastructure aimed at the poor, such as feeder roads which enable small farmers to reduce the cost of getting their produce to market. Similar arguments apply to small-scale, labour-intensive investments in manufacturing, construction of low-income housing and to exploiting comparative advantage in export sectors based upon a relative abundance of labour.

D. Strategies to alleviate poverty

125. Three broad approaches to combat poverty can be identified. The first is often referred to as the "trickle down" approach and relies on economic growth alone to benefit all groups of the population.

126. A second calls for greater governmental intervention to reduce the flow of growth in income to the rich and to channel some of it to the poor. This is sometimes called "redistribution from growth".

127. A third calls for the redistribution of income and of existing productive assets to increase productive employment and incomes of the rural poor, who account for the bulk of the poor in developing countries.

128. Given the requisite political commitment, a combination of a consistent set of enabling measures combining elements of all three approaches will often be necessary to eradicate poverty. The major components of an effective strategy are the following:

(a) Redistribution of land and reform of tenancy laws are needed to enable rural microfarmers, landless agricultural labourers and non-farm workers engaged in low-productivity activities to become more productive. The effectiveness of such measures has been proved in several economies, including those of China, Taiwan Province, the Republic of South Korea and Japan. Most studies find that land redistribution and the resultant creation of small owner-occupied farms can lead to increased growth of agricultural production;

(b) Greater investment in agriculture, the provision of agricultural services to tenants (irrigation, rural roads, credit for fertilizers, seeds and livestocks etc.) and efficient marketing channels would genuinely benefit the poor. They should be accompanied by appropriate agricultural pricing policies, to ensure that the peasantry is not taxed by having the terms of trade turned against them;

(c) Greater investment is needed in human resource development. The emphasis should be shifted from expensive curative health care to more preventive care. Education should emphasize the formation of basic skills for raising productivity;

(d) In most countries expenditures on infrastructure are biased against the poor. The lack of roads, drinking water, sanitation facilities and power is a major obstacle to raising the incomes of the poor;

(e) Social and legal reforms are needed to enhance the full participation of women in economic and social institutions in order to enable them to raise their productivity and incomes and to take better care of the nutritional, health and sanitary needs of their children. In many countries women are denied rights, either by law or by tradition. For instance they are often denied the right to participate in such organizations as agricultural co-operatives and credit institutions; they are denied the right to land and titles to other property, access to credit, and access to education. Such deprivations consign them to life-long drudgery in low-productivity occupations and prevent them from both improving their own well-being and contributing to the development of their countries. Governments are increasingly recognizing the social and economic handicaps women face, but few have taken action to make it possible for women to enjoy the same rights as men. Action is needed in various areas. Restrictive

administrative and legal practices and the customs and attitudes that perpetuate those practices need to be changed. Women should be given full access to available co-operative and credit facilities; social and educational programmes need to be provided so that women can enhance their capabilities for fuller participation in the economy and in society generally; 1/

(f) Urban industry should be allowed to develop unfettered by unnecessary controls and in the context of macro-economic policies that allow prices to reflect real scarcities. Credit should be made available at its opportunity cost to micro enterprises in urban areas. This will enable entrepreneurs, when making investment and production decisions, to choose capital labour ratios on the basis of actual relative scarcities. This, in turn, will encourage faster industrial expansion and greater labour absorption in industry, thereby raising the level of productivity in the economy as a whole;

(g) In most countries, education and the rising incomes of women are likely to reduce fertility rates and population growth. Family planning programmes and the provision of birth control facilities can help to reduce the rate of population growth and bring about a demographic transition to a stage where both mortality and fertility rates are low;

(h) Poverty eradication would be assisted by greater democracy and participation of the poor in local electoral politics and through the creation of organizations that support their cause. It is widely recognized that the redistribution of power and participation in and eradication of rural poverty are interlinked. The involvement of the rural poor in the development process can unleash the creative potential of large numbers of people, make them aware of their fundamental rights and help improve their bargaining power.

E. Eliminating discrimination against the poor

129. In considering the impact of governmental action on poverty, the full range of governmental activities should be taken into account, not just those policies, projects and programmes that are officially designated as being oriented against poverty. This does not imply that it would be mistaken to target projects and policies explicitly for the poor. Clearly targeting, where it can be done efficiently, can be very important, especially in periods of economic recession or readjustment, when public expenditure is being reduced. But one must not lose sight of the fact that what matters for poverty in the end is the net impact of the multiplicity of governmental activities, and not any particular subset of activities that happen to have an anti-poverty label attached to them. When one examines governmental activities as a whole, it often transpires that their net effect has been to the detriment of the poor.

130. Macro-economic policy-making has tended to ignore the effects of alternative policies on employment, investment and income distribution and has focused instead rather narrowly on achieving aggregate equilibrium, such as a reduction in the government deficit. Systems of taxation, far from being progressive, are often regressive. Import-restrictive policies often raise the prices of goods consumed by the poor or used by them to increase their productivity; at the other extreme, many countries have no inheritance tax or do not enforce it.

131. Governments would be well advised to evaluate carefully the sum total of their activities on the incomes of the poor - women and men. Often they may find that the best way to alleviate poverty is to remove old subsidies, regulations and taxes which end up, directly or indirectly, being paid by the poorest members of society, to the benefit of upper- and middle-income groups.

132. Examples of governmental programmes and activities which discriminate against the poor are abundant, especially in those countries, particularly in Latin America, where the financing of governmental deficits is achieved through an "inflation tax". Indeed, the inflation tax is probably the most inequitable of all taxes, since it can be avoided by the rich- by restructuring their assets - but not by the poor. Effective anti-inflationary policies are thus an important component of measures designed to eliminate governmental discrimination against the poor.

133. Tax expenditures - i.e., the granting of tax exemptions and tax incentives to privileged sectors or regions - frequently discriminate against the poor. The advantages tend to be appropriated by the richest segments of society to the detriment of budgetary balance and, ultimately, of the poor.

134. Similarly, direct and indirect subsidies to superior goods with a high income elasticity of demand, such as gasoline, water, electricity, gas etc., although supposedly introduced to favour the "have nots", end up benefiting the more privileged groups in society. Another example of discrimination against the poor is the provision of free public university education. This frequently absorbs most of the public funds allocated to education, to the detriment of the quality of primary education. Credit subsidies to agriculture have also been a cause of land concentration and worsening income distribution. Taxes on the wage bill of the modern sector tend to reduce both the level of urban employment and the take-home pay of low-income employees.

135. A reassessment of many governmental activities of the type noted above would be desirable. Analysis has shown beyond much doubt that the beneficiaries of most subsidies are not the poor. Thus the elimination of discriminatory measures would increase efficiency, improve the distribution of income and reduce poverty. It would also improve the budgetary position of the Government. Unfortunately, however, it often is difficult to form a political coalition of the poor to stop the discrimination against them. Democratic political processes obviously have a role to play here. The fact remains, nonetheless, that steps to help the poor by removing measures that harm them often seem to be unpopular. Upper- and middle-class constituencies, the direct beneficiaries of tax credits and subsidies, and the bureaucracies that administer them are well organized and will resist change. The poor are unorganized, and it is difficult to mobilize support for abolishing policies that indirectly or directly discriminate against them. This is not an argument against pushing ahead with reforms but an indication that political reforms may have to accompany economic ones.

F. International co-operation in eradicating poverty

136. While the major responsibility for eradicating poverty necessarily rests with the developing countries themselves, international co-operation can provide effective support to efforts at the domestic level. The most obvious way this can be done is by creating a global environment conducive to accelerated and sustained growth. The developed market economies have an obligation not only to their own

people but to the international community at large to adopt macro-economic policies that preferably encourage and at least do not inhibit an expansion of production. While it would be wrong to imagine that growth in rich countries will automatically diminish poverty in poor countries, it is certainly the case that prolonged stagnation in the rich countries would make it much more difficult substantially to reduce world poverty.

137. Perhaps the most effective area of international co-operation is international trade. World commerce and to a lesser extent international capital flows link growth in the developed market economies to development in the developing countries. The reduction of barriers to international trade - be they tariffs or non-tariff barriers - and the elimination of discrimination against exports from the developing countries have an obvious role to play. The success of the Uruguay Round and the strengthening of GATT and the multilateral system, as discussed in chapter II, are essential elements of an international strategy to reduce poverty.

138. Equally important for many countries in Africa and Latin America, and for a few in Asia, is greater progress towards solving the international debt problem. While it would be incorrect to say that no progress has been made, it is a matter of serious concern that the foreign debt/export ratio is higher today than it was in 1982 when the debt crisis first erupted. Unless debt-servicing obligations for the most seriously indebted countries can be reduced substantially, many of them will not be able to raise their rate of investment, increase the volume of imports or resume sustained growth. Some combination of lower interest rates, debt write-off, rescheduling and concessional aid flows almost certainly is essential if poverty in the highly indebted countries is to fall during this decade. A reduction in third-world debt, moreover, would be to the advantage of many developed countries since it would permit an expansion of their exports and, hence, faster growth.

139. The most important point, however, is that the developing countries need expanding markets for their exports in the developed countries in order to increase employment and raise the productivity of labour in both rural and urban areas. If an appropriate set of domestic policies is in place, foreign trade can be a handmaiden to poverty eradication. The developing countries have a particular interest in the liberalization of international trade in agricultural products, especially processed agricultural goods, in textiles and clothing, and in other labour-intensive light manufactured goods.

140. The international agencies - particularly the IMF, the World Bank and the regional development banks - can also contribute to faster growth through their financial and lending policies. Their volume of lending affects global balances and the composition of their lending can affect the extent to which the benefits of internationally financed investment actually reach the poor. At the very least the international financial institutions should help to diminish the negative net outflow even if they can't ensure that the net flow of capital is in favour of the poor countries. In setting conditions for lending, the impact on poverty should be taken into account.

141. The activities of the specialized United Nations agencies, including, of course, technical assistance, should evolve within a context designed to ensure there is no discrimination against the poor. The work of the many specialized agencies is another area where more effective international co-operation in the eradication of poverty should be possible. Several of the United Nations agencies

now focus quite explicitly on poverty reduction or on activities which are closely related to poverty reduction. They have all undertaken to address explicitly the impact of their programmes on women. The United Nations Development Programme (UNDP) proposes to make human development a central theme of its work, and this is greatly to be welcomed. The International Fund for Agricultural Development (IFAD) has pioneered in investing in the poor, and a strong case can be made for augmenting its resources so that its lending activities can increase. The World Employment Programme of the International Labour Organisation (ILO), now well established, could perhaps be rejuvenated and given a renewed mandate to tackle employment and poverty issues in developing countries. The World Health Organization (WHO) has done much valuable work on primary health care, although much still remains to be done. The United Nations Children's Fund (UNICEF) has been successful in designing innovative strategies aimed at improving the well-being of children, youths and women.

142. The United Nations Educational, Scientific and Cultural Organization (UNESCO) has led the way in the international struggle against illiteracy. Perhaps more could be done by UNESCO, however, to focus its activities on education and training in such a way that they would be of direct benefit to the poor, help to redress discrimination against women and have a large economic payoff. The other agencies should be encouraged to review their priorities and programmes, strengthening those elements most directly concerned with the eradication of poverty and reallocating resources away from programmes which, though valuable, are less important. The Food and Agriculture Organization of the United Nations (FAO) and the United Nations Industrial Development Organization (UNIDO) could play potentially more important roles in agricultural and industrial development, respectively. The emphasis of their activities, however, should be reconsidered. FAO should focus less on plants and animals and more on the poor who cultivate the land and raise the livestock, less on agronomy and more on rural institutions, land and water rights, rural infrastructure and public policies that determine how the benefits of agricultural growth are distributed. Similarly UNIDO should devote much more attention to the promotion of labour-intensive industrial processes, to small-scale enterprises and to activities that can be fairly widely dispersed throughout a country. Such an approach would help to create more employment, promote entrepreneurship and small businesses and spread the benefits of industrialization to a wider section of the population in both urban and rural areas.

143. Technical assistance of the traditional sort will continue to be useful, but technical assistance - and particularly the training component of technical assistance - should be seen as reinforcing the emphasis on human resource development as part of a poverty eradication strategy. Technical assistance is likely to be needed in many areas and at various levels - e.g., to train personnel to prepare poverty eradication programmes, to train people who in turn can teach skills needed by large numbers of the poor, to train technicians to carry out area-specific agricultural research, to help in the introduction of new technology such as high-yielding, disease- and drought-resistant varieties, to train rural people in water resource management techniques etc. The point is that, given a limited technical assistance budget, the proportion allocated to activities which have a good prospect of reducing poverty directly should be as large as possible.

144. What is true of technical assistance is equally true of the rest of foreign aid. Bilateral official development assistance should focus more on poverty eradication. The donor countries have agreed that measures to improve the living

standards of women should be an important component of bilateral aid programmes. Even if greater emphasis is placed on poverty eradication, however, it would be unrealistic to imagine that foreign aid - however generous and however carefully targetted - could eradicate poverty or improve women's status in the absence of facilitating national institutional structures (including land tenure systems) and appropriate governmental policies. Quite often, however, foreign aid does little to alleviate poverty even in those countries where the poor have access to productive resources and governmental policies are effective. The reason for this has less to do with the quantity of bilateral aid - meagre though it is - than with its quality. Far too much aid serves no developmental purpose but is used instead to promote the exports of the donor country, to encourage the use of (imported) capital-intensive methods of production or to strengthen the police and armed forces of the recipient country.

145. Much could be done to increase the effectiveness of bilateral aid programmes and to channel aid resources in such a way that they complement national efforts to eradicate poverty.

V. SELF-EVALUATION OF THE COMMITTEE

146. At its twenty-fifth session, the Committee decided "to take stock of its work by way of a self-evaluation at its twenty-sixth session in 1990, considering the usefulness of its advice to the Council and its effectiveness in contributing to the formulation of development policies at the national and international levels, with a view, if so warranted, to giving new directions to its work in the future". 4/

147. The Committee agreed that its comparative advantage derived from the independence and extensive experience of its members. As such, it was well placed to review the major problems of international economic and development policy, especially where such problems cut across the responsibilities of various international agencies and where inconsistencies arose between activities or policies in various sectors of the world economy.

148. The Committee further stressed that the themes to be addressed by the Committee, especially their analyses and policy recommendations, should be such as to serve as a catalyst to the thinking of all concerned with development problems. The Committee agreed that it should strike a better balance between national policy issues and international policy issues. With regard to long-term and short-term issues, the Committee stressed the need to address topical issues, keeping in mind their long-term implications, but agreed that it should also endeavour to address long-term issues of major importance to development that were not being dealt with adequately elsewhere. It further agreed on the need for in-depth analysis of the issues with which it dealt. When the Committee saw fit to address issues that were being discussed elsewhere in the United Nations system, it should emphasize their implications for international and national development policies.

149. The Committee agreed that it should not compete with or duplicate the activities of the various international agencies, including the United Nations itself, especially where in-depth research was required. The limited time during which the Committee and its working groups meet meant that they should, generally speaking, concentrate on problems and issues for the elucidation of which the accumulated knowledge and experience of members was the crucial input.

150. With respect to the work of the United Nations system on projections and long-term development issues, the Committee considered it adequate that the Secretariat draw to its attention the reports of the ACC Task Force on Long-term Development Objectives and of its Technical Working Group or of other subsidiary bodies which were germane to its concerns.

151. The Committee also reviewed its organization and methods of work, including innovations implemented over the years, including the following: advance preparation of reports by working groups; commissioning of outside studies by eminent experts; shorter plenary sessions; informal servicing of working groups, usually without simultaneous interpretation; the use of co-opted experts to ensure adequate geographical representation in meetings where regular members are unable to attend.

152. The Committee generally endorsed the findings of the review undertaken three years ago at its twenty-third session. However, in view of the shorter plenary sessions, it recommended that the rapporteur and one or two additional members of its drafting committee should, if necessary, be asked by the Chairman to remain for an additional two or three days after the conclusion of the session to complete the drafting of the report. The Committee also recommended a return to an earlier practice when meetings of its working groups or plenary sessions were occasionally held in developing countries. It was felt that this practice could increase the effectiveness of the Committee, especially in bringing its views and recommendations to the attention of policy makers in developing countries.

153. The Committee agreed that there was scope for strengthening its direct relationship to the General Assembly and the Economic and Social Council and to the Secretariat in New York which serviced both those bodies and the Committee itself. In so doing, the Committee agreed to prepare part of its own agenda on a multi-year basis in order to co-ordinate more closely with those central organs of the United Nations and with the work of the Secretariat in New York.

154. The Committee agreed that its effectiveness could be greater if its relationship with the top echelon of the Organization were to be enhanced. The Committee would continue to be at the disposal of the Secretary-General of the United Nations and the Director-General for Development and International Economic Co-operation and the executive heads of other United Nations organizations who were invited to put questions to the Committee for its advice. It was also felt that that practice could reduce, but not eliminate, the need to convene ad hoc expert groups to advise the Secretary-General on specific issues. The Committee invited the Secretariat to consider ways to give effect to that recommendation. However, the Committee stressed the importance of not jeopardizing the independent status of the members of the Committee.

155. The Committee agreed that its Chairman or another member of the Committee designated by him could address the Economic and Social Council at its summer session and introduce its report, especially when it took up matters relating to a major policy theme of the Council. When its work was relevant to other intergovernmental bodies, a similar practice might be followed. Informal exchanges between members of the Committee and the delegates to the Council or other bodies could also enhance the effectiveness of the Committee.

156. The Committee agreed that the effectiveness of its work could be enhanced by greater outreach. It suggested that selective efforts be made to improve the dissemination of its reports. Possibilities might include systematic contacts with economic journalists and selected non-governmental organizations, use of the information centres of the Department of Public Information, and a cycle of international seminars on development issues related to the Committee's ongoing work. It agreed that it would be useful if the reports of its working groups were issued under an "occasional papers" series by the Deparment of International Economic and Social Affairs so as possibly to reach a wider audience by targeting particular groups according to the subject-matter of the working group reports. The Department of Technical Co-operation for Development, through its regional and interregional advisers, and the United Nations Development Programme, through its

resident representatives, could also help to draw the attention of decision makers at the national level to the work of the Committee.

157. The Committee stressed that the part-time nature of the commitment of the members of the Committee to its work meant that the members could not be expected to prepare lengthy reports like those of a fully fledged research body, and that they could work effectively only with considerable substantive support from the Secretariat and with the assistance of consultants on specific topics for which additional resources were needed. Increasing its effectiveness in other ways - for example, by improving the procedures for dissemination of its findings - would also require additional resources.

158. As part of its self-evaluation, the Committee reviewed its original terms of reference and their subsequent evolution. It was established by the Economic and Social Council that independent expert advice would be provided on development trends and projections, including planning techniques and development strategies, and on the activities of the United Nations and its specialized agencies in those fields in order to propose measures for their improvement. In resolution 1079 (XXXIX) of 28 July 1965, the Council invited the Committee "to make any suggestions it may consider useful concerning the scope of its terms of reference". At its first and second sessions, the Committee elaborated on its terms of reference, emphasizing the need to devote attention to the design and implementation of effective policies. In its initial years, the Committee gave considerable attention to planning problems, especially those related to plan implementation at the national and regional levels. The Committee dealt with a broad range of policy issues. The focus of the Committee's work had evolved in accordance with developments in the world economy and evolution in the modalities of international economic co-operation. Accordingly, in the 1970s, the Committee had devoted considerable time to the formulation of international development strategies and their review and appraisal. Its mandate had also been enlarged by specific requests from the Economic and Social Council, largely in connection with the identification of the least developed among the developing countries. The Committee did not propose further changes in its terms of reference at the current time.

VI. OTHER MATTERS

A. Identification of the least developed among the developing countries

159. At the request of the Economic and Social Council (decision 1990/206 of 9 February 1990), the Committee examined the case of Liberia for inclusion in the list of the least developed countries on the basis of the existing criteria.

160. Following the practice established in earlier reviews, the Secretariat provided the Committee with information necessary to update the per capita GDP criterion for changes in prices and the real growth of per capita GDP in world market economies. The adjusted lower and upper cut-off points of the per capita GDP criterion were found to be $473 and $567, respectively. The Secretariat also supplied the Committee with the most recent available data pertaining to Liberia and the criteria - namely, per capita GDP, the share of manufacturing in GDP and the rate of adult literacy.

161. The Committee reviewed this information as well as the material submitted by the Government of Liberia. The available information revealed the following features of the economy of Liberia: the country is endowed with considerable natural resources, including, inter alia, substantial deposits of iron ore, diamonds and gold, all of which are currently exploited; a large tropical forest with extensive commercial timber species, and climate and soil conditions favourable to agricultural activity. However, for two decades the average annual rate of growth of GDP per capita has been negative. In current prices per capita GDP in 1988 was well below the level achieved in the period 1981-1984. Adverse developments in the production and exports of iron ore and other products in recent years contributed in part to the deterioration. Those difficulties were considerably compounded by shortcomings of domestic policies which have contributed to a large outflow of capital, a decline in the rate of investment and the near collapse of the financial system.

162. The Committee concluded that Liberia met the existing criteria based on the current procedures for their application, and that that was due primarily to the sustained decline over many years of GDP per capita. In accordance with past practices of application of established criteria, therefore, Liberia could be included on the list.

B. Criteria for designating countries as least developed among the developing countries

163. The Committee wished to reiterate - as it had done several times in the recent past - that the existing criteria, which were tentatively formulated some two decades ago under the constraint of a paucity of data on development indicators for developing countries, were not adequate to bring out in a conclusive manner long-term structural weaknesses which underlay the concept of "least developed". The Committee was currently looking into alternative sets of additional indicators for the inclusion of countries in the list of "least developed" countries. It

reviewed two recent progress reports on proposals for a new set of criteria, prepared by the Secretariat. 5/ The Committee asked the Secretariat to continue collecting the data necessary to complete its evaluation, which it would undertake at its twenty-seventh session.

C. Medium-term plan 1992-1997

164. The Assistant Secretary-General for Development Research and Policy Analysis in the Department of International Economic and Social Affairs drew the attention of the Committee to programme 12: Global development issues and policies of the draft medium-term plan for 1992-1997. He explained the process by which the United Nations formulated and adopted its medium-term plan and invited those members of the Committee who might wish to do so to provide their comments to the Secretariat.

VII. ARRANGEMENTS FOR FUTURE WORK

165. The Committee agreed on the indicative three-year work programme outlined below and decided to prepare for its twenty-seventh session (Kuwait, 21-25 April 1991) through two working groups, supported by relevant studies to be undertaken by the Secretariat and independent experts on the selected themes. The Committee also decided to incorporate the delayed report of its working group on international development strategy and national policies in its report on the twenty-seventh session.

166. The Committee stressed the need for intensive substantive preparations before the regular sessions, including the work of consultants as well as the Secretariat, and was informed by the Secretariat that its proposed work programme could be carried out within the current budgetary appropriations.

A. Work programme for the twenty-seventh session

1. Reform in socialist countries

167. Economic and political reforms under way in Eastern Europe, the Soviet Union and socialist countries of Asia are likely to have far-reaching consequences not only for their own domestic economic performance, but also for the world economy and the developing countries. Restructuring of central planning or its replacement by market mechanisms will involve, inter alia, rationalization and modernization of productive sectors and the integration of their economies more fully into the world economy, which will have implications for the direction of trade. There is concern that in the short run, developing countries will face more competition for international capital flows and in their export markets. In the medium term, a more fully integrated world economy can be expected to offer greater scope for specialization and an improved international division of labour, which would benefit all countries.

168. At present there is considerable uncertainty regarding the pace and extent of reforms, the absorptive capacity of these economies and the speed with which they will expand and diversify exports, all of which have implications for future patterns of trade and finance and for world economic growth.

169. The Committee proposed to look into these and other related issues by convening a representative working group of from five to eight members and technical experts, chaired by Karel Dyba (Geneva, 26-30 November 1990).

2. International financial co-operation for development

170. In order to give effect to a new international development strategy for the 1990s, international co-operation needs to be intensified in order to restore growth where it has been flagging and to reinforce effective policies where the record has been satisfactory. An assessment is needed regarding the volume, distribution and quality of aid, including aid-tying, aid dependency, and prospects for increasing private foreign investment in developing countries. Another set of

issues is related to the institutional arrangements for aid and the policies of international financial institutions. A related set of issues concerns the widespread trends towards democratization and participation, their relationship to poverty alleviation, and the role of international development efforts in supporting such trends. A new issue in the 1990s will be the size and utilization of the peace dividend made possible by the easing of East/West tensions and the resolution of military conflicts in various parts of the developing world. This issue is not confined to reducing military expenditures in developed countries. The need to reduce military expenditures in developing countries and channel the savings towards development has now assumed urgent proportions. Another issue is the effectiveness of the programmes of structural reform supported by the international financial institutions. Still another issue concerns the criteria used for prioritization of aid. The role of the list of least developed countries and the adequacy of the criteria used to recommend countries for inclusion on the list will be considered.

171. The Committee proposed to study these aspects of international co-operation through a working group of from five to eight members, including technical experts, and chaired by Just Faaland (New York, 13-16 November 1990).

B. A provisional work programme for the twenty-eighth session (1992)

1. Economic reform in developing countries

172. Beset by internal and external imbalances arising from large external shocks and/or policy shortcomings, many developing countries have been implementing economic reforms. The general direction of the reforms has been towards greater reliance on market forces, greater outward orientation, a reduced role for the public sector in directly productive activities and greater fiscal and monetary discipline. For the most part, the reforms have been carried out under a general framework which is often referred to as structural adjustment. The results of the reforms seem to be mixed and vary from country to country, depending on the extent of the reforms and the structural characteristics of countries implementing them. In many countries, economic and social conditions seem to have deteriorated.

173. The Committee decided to make a comprehensive assessment of policy reforms undertaken, compare the experience of countries in different regions and look into the relevance of successful experiences for other countries. The Committee proposed to consider these and other related issues at its twenty-eighth session, through a working group to be formed at its twenty-seventh session.

2. Poverty, environment and development

174. Massive rural poverty in many parts of the world is inflicting serious damage to the environment through over-grazing, over-cultivation of land without replenishment of soil nutrients, and deforestation. In many areas of the world, desertification is spreading, and the increasing incidence and the intensity of

floods are having enormous adverse impacts on human beings, livestock, crops and infrastructure. In their struggle for immediate survival, the rural poor are actually destroying the capacity of the natural resource base to provide an adequate income for future generations.

175. Industrial development is accompanied by air and water pollution in both the developing and the developed countries, through the emission of pollutants and disposal of hazard wastes in streams, water bodies and the open air. Air-borne emissions also contribute to global warming, acid rain, and destruction of the ozone layer. Intensification of agricultural development through careless use of pesticides and herbicides and excessive use of fertilizers is contributing to water pollution in both the developing and the developed world. Mismanagement of large irrigation schemes has led to water-logging, salinization and alkalization on a large scale in various parts of the world. Industrialization and agricultural development strategies designed to have a greater direct impact on poverty alleviation may offer scope for the use of technologies less damaging to the environment than in the past. The Committee proposed to look into issues related to poverty, the environment and development in the framework of the concept of sustained and environmentally sound development at its twenty-eighth session, through a working group to be formed at its twenty-seventh session.

C. A provisional work programme for the twenty-ninth session (1993)

176. The Committee decided to consider at its twenty-ninth session the issue of population growth in relationship to natural resources, environment and development. It agreed to propose terms of reference for a working group on this subject and to decide on other themes at a later date.

VIII. ORGANIZATION OF THE SESSION

177. The twenty-sixth session of the Committee for Development Planning was held at United Nations Headquarters from 30 April to 4 May 1990. Twenty-two members of the Committee attended: Abdlatif AL-HAMAD; Edmar BACHA; P. N. DHAR; Karel DYBA; Just FAALAND; Ricardo FFRENCH-DAVIS; Tchaboure GOGUE; Keith GRIFFIN; Patrick GUILLAUMONT; Mahbub UL HAQ; Ryokichi HIRONO; Helen HUGHES; Nicolai LIVENTSEV; Solita MONSOD; Henry NAU; Maureen O'NEIL; T. Ademola OYEJIDE; Shan PU; Akilagpa SAWYERR; Udo Ernst SIMONIS; George SURANYI; Ferdinand VAN DAM.

178. The Committee elected the following officers for the term ending on 31 December 1992:

Chairman: Abdlatif Y. AL-HAMAD

Vice-Chairmen: Edmar BACHA
Just FAALAND
T. Ademola OYEJIDE

Rapporteur: Keith GRIFFIN.

179. The session was opened by the Under-Secretary-General for International Economic and Social Affairs, who welcomed the new members of the Committee and expressed his appreciation to all the members for their willingness to serve on the Committee and particularly to Abdlatif AL-HAMAD for his exceptionally able chairmanship. He extended thanks to those members who had completed their terms, and particularly to the outgoing members of the Bureau, Just Faaland, its rapporteur and its vice-chairman, Mihaly Simai, and to Jozef Pajestka who had been on the Committee since its inception. He went on to mention that the work of the Committee on the international development strategy in 1989 and its articulation of four interrelated themes had become central to the document on the strategy that was being shaped by the Preparatory Committee on the strategy. He mentioned, furthermore, that by requesting the Committee's views on effective measures for poverty alleviation as an input to the fourth session of the Ad Hoc Committee of the Whole for the Preparation of the International Development Strategy, the General Assembly had underscored the importance it attached to that aspect of the strategy and its high regard for the quality of the expert advice provided by the Committee. He then briefly commented on the short- and medium-term prospects of the world economy on the basis of Project LINK projections and the reports of the Committee's working groups on trading blocs and self-evaluation.

180. Preparation for the session had been carried out by three working groups of the Committee. The working group on international development strategy and national policies (met in New York from 1 to 3 November 1989) comprised Edmar BACHA (Chairman), Patrick GUILLAUMONT, Henry NAU, and Mahbub UL HAQ with Augustine S. NYAMATORE, Rahman SOBHAN, Miguel URRUTIA and Rogelio WERNECK as co-opted experts. The working group on emerging trading blocs (met at Geneva from 28 November to 1 December 1989) comprised Helen HUGHES (Chairman), Shinichi ICHIMURA and Igor SYSOYEV with N. BOURENANE, Winston FRITSCH, Deepak NAYYAR, Jeffrey SCHOTT, and Per WIJKMAN as co-opted experts. The working group on self-evaluation (met in New York from 21 to 23 March 1990) comprised

P. N. DHAR (Chairman), Just FAALAND, Nicolas LIVENTSEV, Jozef PAJESTKA and Mahbub UL HAQ with Sidney DELL, John P. LEWIS, Jean RIPERT, Philippe de SEYNES and Omprakash TALWAR as co-opted experts.

181. Substantive services for the session were provided by the Department of International Economic and Social Affairs of the United Nations Secretariat. The following bodies were represented at the session: the Centre for Science and Technology for Development, the Centre on Transnational Corporations, the Centre for Social Development and Humanitarian Affairs, the United Nations Children's Fund, the United Nations Conference on Trade and Development, the United Nations Development Programme, Department of Technical Co-operation for Development, the United Nations Office at Vienna, the United Nations Environment Programme, the World Institute for Development Economics Research of the United Nations University, the Economic Commission for Africa, the Economic Commission for Europe, the Economic and Social Commission for Asia and the Pacific, the United Nations Centre for Human Settlements, the International Atomic Energy Agency, the World Food Council, the World Food Programme, the International Labour Organisation, the Food and Agriculture Organization of the United Nations, the World Health Organization, the World Bank, the International Monetary Fund, the United Nations Industrial Development Organization, the Organisation for Economic Co-operation and Development, and one non-governmental organization.

Notes

1/ The Committee reviewed recent short- and medium-term projections of the world economy emanating from the work of Project LINK. See Department of International Economic and Social Affairs, "Report of the Expert Group Meeting on Short- and Medium-term Projections of the World Economy" (28 April 1990). It recognized that although forecasts differ in assumptions and emphasis, these differences are not decisive.

2/ World Economic Survey 1990 (to be issued as a United Nations publication).

3/ Lance Taylor, "Foreign resource flows and developing country growth", paper prepared for the World Institute for Development Economics Research of the United Nations University (1990).

4/ Official Records of the Economic and Social Council, 1989, Supplement No. 11 (E/1989/29), para. 330.

5/ Department of International Economic and Social Affairs, "Proposals for formulating a new set of criteria for designating countries as least developed: a progress report" (April 1989) and "Criteria for designation as least developed among the developing countries: a progress report" (April 1990).

6/ See the Nairobi Forward-looking Strategies for the Advancement of Women, Report of the World Conference to Review and Appraise the Achievements of the United Nations Decade for Women: Equality, Development and Peace, Nairobi, 15-26 July 1985 (United Nations publication, Sales No. E.85.IV.10), chap. I.

Annex I

AGENDA

1. Adoption of the agenda and organization of work.

2. Emerging trends in the world economy.

3. Self-evaluation of the Committee.

4. Emerging trading blocs and their implications for development planning.

5. National policies in the areas of public expenditures and tax reform in relation to economic development.

6. Measures for the alleviation of poverty.

7. Criteria for designation as least developed among the developing countries.

8. Identification of the least developed among the developing countries: the case of Liberia.

9. Organization of the work of the twenty-seventh session.

10. Adoption of the report of the Committee on its twenty-sixth session.

Annex II

LIST OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

	Country	Date of inclusion on the list
1.	Afghanistan	1971
2.	Benin	"
3.	Bhutan	"
4.	Botswana	"
5.	Burundi	"
6.	Chad	"
7.	Ethiopia	"
8.	Guinea	"
9.	Haiti	"
10.	Lao People's Democratic Republic	"
11.	Lesotho	"
12.	Malawi	"
13.	Maldives	"
14.	Mali	"
15.	Nepal	"
16.	Niger	"
17.	Rwanda	"
18.	Samoa	"
19.	Somalia	"
20.	Sudan	"
21.	Uganda	"
22.	United Republic of Tanzania	"
23.	Burkina Faso	"
24.	Yemen	"
25.	Bangladesh	1975
26.	Central African Republic	"
27.	Democratic Yemen	"
28.	Gambia	"
29.	Cape Verde	1977
30.	Comoros	"
31.	Guinea Bissau	1981
32.	Djibouti	1982
33.	Equatorial Guinea	"
34.	Sao Tome and Principe	"
35.	Sierra Leone	"
36.	Togo	"
37.	Vanuatu	1985
38.	Tuvalu	1986
39.	Kiribati	"
40.	Mauritania	"

Country	Date of inclusion on the list
41. Myanmar	1987
42. Mozambique	1988
43. Liberia (subject to approval by the General Assembly)	1990

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